



Risk and Audit Committee

Agenda Item 6a

February 18, 2025

Item Name: Office of Audit Services Charter Revision

Program: Audit Services

Item Type: Action

Recommendation

Approve the revised Office of Audit Services (OFAS) Charter

Executive Summary

This agenda item is to propose revisions to the existing OFAS Charter, which was last updated and approved by the Risk and Audit Committee in June 2024.

Strategic Plan

This item is not a specific product of the Strategic Plan but is required by the Institute of Internal Auditors (IIA) Global Internal Audit Standards (Standards).

Background

Government Code section 13886.5 requires all state agencies that have their own internal auditors or that conduct internal audits to conduct internal audit activity under the standards of the IIA or the Government Auditing Standards issued by the Comptroller General of the United States, as appropriate.

OFAS conducts internal audits under the Standards issued by the IIA. In January 2024, the IIA released a significant update to the International Professional Practices Framework, now known as the Global Internal Audit Standards. The Standards require the Chief Auditor to develop and maintain an internal audit charter that specifies, at a minimum, the internal audit function's:

- Purpose of Internal Auditing,
- Commitment to adhering to the Standards,
- Mandate, including scope and types of services to be provided and the Board's responsibilities and expectations regarding management's support of the internal audit function, and
- Organizational position and reporting relationships.

The Standards require that the Chief Auditor discuss the proposed Charter with the Board and senior management to confirm that it accurately reflects their understanding and expectations of the internal audit function. The Standards also require the Chief Auditor to periodically review the internal audit charter and present to senior management and the Board for approval.

Analysis

The OFAS Charter is updated periodically and was last updated and approved by the Risk and Audit Committee in June 2024. The proposed revisions to the Charter are in response to the updated requirements in the Standards and are consistent with the IIA's Public Sector model internal audit charter. Among other clarifying revisions, the proposed Charter includes new sections:

- Outlining the Board's oversight responsibilities, which include demonstrating its support of the audit function, participating in discussions about the new Standards, and participating in the annual enterprise risk assessment to communicate the Board's perspective on the organization's strategies, objectives, and risks.
- Defining the Chief Auditor's responsibility to report to the Board and Senior Management on items including the internal audit plan and performance relative to its plan, potential impairments to independence, the results of the quality assurance and improvement program, and significant risk exposures and control issues that could interfere with the achievement of CalPERS strategic objectives.
- Describing the Chief Auditor's responsibility to develop and maintain a comprehensive quality assurance improvement program to evaluate all aspects of OFAS, ensure conformance with the Standards and performance measurement to assess OFAS' progress towards achieving its objectives, and promote continuous improvement. The Charter also includes new requirements related to the qualifications of OFAS' external assessment team and the communication of those results to the Risk and Audit Committee.

Due to the structural changes to the IIA's charter template, OFAS' proposed Charter deviates significantly from the existing Charter and thus should be reviewed as a new document without tracked changes. The changes have been reflected in the updated Charter in Attachment 1. OFAS has also included the existing Charter as Attachment 2; a red-lined/strikeout version was not possible.

Budget and Fiscal Impacts

Not Applicable

Benefits and Risks

The revised Charter will allow OFAS to effectively carry out the responsibilities of internal audit activity and add value to the organization. Implementation of the revised Charter would ensure internal audit activity's continued compliance with Standards. Not implementing the revised Charter would result in OFAS operating under an outdated Charter and not being aligned with the current Standards.

Attachments

Attachment 1 – Revised OFAS Charter

Attachment 2 – Existing OFAS Charter

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